

LOS GATOS' FISCAL FUTURE

The global economic crisis is taking its toll on local households, businesses, and even non-profit organizations. Los Gatos, like other communities, is not immune from these challenges. Shopping, traveling, real estate, and building activity have all decreased, lowering the amount of General Fund revenue the Town receives. The Town's General Fund is estimated to be about \$32 million in FY 2009/10.

The General Fund is supported by key economically-sensitive revenues like sales and property tax, hotel occupancy tax, business license tax, and fees/permits. These revenues pay for police, library, and park and maintenance services among many others. While the Town's past prudent planning has positioned us well for times of fiscal hardship, it is not enough to weather the current economic storm.

The Town regularly prepares a 5-Year Forecast, which shows rising deficits each year, starting next fiscal year unless the Town takes corrective action. It is anticipated that over the next two years, the Town will face a \$2.5-3 million shortfall, which represents about 8% of the Town's General Fund. Budget adjustments will be necessary to correct this gap. The Town is developing a variety of short and long term budget strategies to address the anticipated shortfall. Some of these strategies include targeted hiring freezes and elimination of positions, service delivery reorganizations, and possible work furloughs. Fewer staff will mean that some service levels will be lower. Should the economic situation worsen over the next two years, the Town has the ability to use designated reserves to maintain basic core services.

The good news is that this current fiscal challenge is limited to revenues that support the General Fund. Funds that support redevelopment, parking, affordable housing, reserves and other special programs do not appear to be impacted by the current economic situation. This means that projects such as the Police Operations building and the new Library facility should be unaffected.

In summary, the Town has been affected by the economic crisis. However, because of Los Gatos' diligent attention to sound fiscal practices, the Town is relatively better positioned compared to other communities. During this challenging period, the Town Council will place a high priority on the Town's economic vitality and protection of vital revenues. Every effort will be made to continue to provide the best service possible with the limited funds available. The Council will consider the proposed operating budget on May 18, which will be available on the Town website at www.LosGatosCa.gov.